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BAUCUS, GRASSLEY WIN TAX RELIEF FOR AMERICA'S MILITARY MEN AND WOMEN

Finance leaders' bill extends, streamlines, and strengthens provisions to aid U.S. troops

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) won passage today of legislation providing \$1.2 billion in tax relief to benefit America's veterans and soldiers. Baucus and Grassley first introduced S. 1593, the Defenders of Freedom Tax Relief Act in June of this year, and won unanimous Senate approval of a modified version of the legislation tonight. The bill includes tax cuts for members of the military who are receiving combat pay, saving for retirement, or purchasing their own homes. It also provides benefits for employers of military reservists and for members of the National Guard who provide assistance to employees who are called to active duty. New provisions in the legislation passed today reflect elements of House-passed military tax legislation, H.R. 3997, the Heroes Earnings Assistance and Relief Tax Act of 2007. It is now necessary for the House to approve the modified bill so that it can be sent to the President's desk for signature into law.

"All too often, members of our military shoulder extra financial burdens as a result of their service to America. It's only right to make sure that military families are able to buy homes, save for the future, and just meet day-to-day expenses. Congress is doing the right thing by our fighting forces and by our veterans in passing this military tax bill," said Baucus. **"We should support members of our military not only when they're serving overseas, but every day here at home. I'm proud to have written this bill for our fighting men and women."**

Grassley said, **"Military service makes taxes complicated and sometimes unfair. People shouldn't suffer a tax hit to serve our country. We need to make sure military men and women have fair treatment under the tax code. It's a no-brainer."**

Tax benefits in the Defenders of Freedom Tax Relief Act of 2007 include:

- A permanent allowance for soldiers to count their non-taxable combat pay when figuring their eligibility for the earned income tax credit, a refundable federal income tax credit that puts cash in the hands of low-income working individuals and families.
- A tax cut for small businesses when they continue paying some salary to members of the National Guard and Reserve who are called to duty.

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- An end to cumbersome rules for reporting of income when companies continue paying some salary to members of the National Guard and Reserve who are called to duty. This makes it easier for reservists to file their taxes and simpler for employers to keep contributing to those employees' retirement plans.
- The ability for active duty troops to withdraw money from retirement plans, and an allowance of two years to replace the funds without tax penalty.
- Extension of a provision that gives retired veterans more time to claim a tax refund on some types of disability benefit payments.
- Authority for the IRS to treat gifts of thanks from states to veterans—such as payments of excess state revenue—as nontaxable gifts.
- A permanent extension of a provision that gives intelligence service employees a longer period of time to meet residency requirements necessary to exclude profits from the sale of their home from capital gains tax, which is often necessary due to frequent deployment. In the legislation passed today, this provision is also extended to members of the Peace Corps.

Additional changes made to the Baucus-Grassley bill include:

- Permission for a soldier's basic housing allowance to be excluded when their income status is being determined for purposes of a developer's eligibility for low-income housing credits and tax exempt bonds.
- The ability for families of Reservists killed in the line of duty to collect life insurance and other benefits provided by the civilian employer (Included in H.R. 3997).
- A permanent allowance for all veterans to use qualified mortgage bonds to purchase their homes (Included in H.R. 3997).
- The ability for families of soldiers killed in the line of duty to contribute up to 100 percent of survivor benefits to retirement savings accounts or to education savings accounts (Included in H.R. 3997).

The unanimous consent agreement fully offsets the cost of military tax relief with four provisions. The bill makes certain that individuals who relinquish their U.S. citizenship or long-term U.S. residency pay the same Federal taxes for appreciation of assets, such as stocks or bonds, which they would pay if they sold them as U.S. citizens or residents. It also increases the penalty for people who fail to file their tax returns. Another offset allows reservists returning from a tour of duty to opt back into a civilian employer's health insurance plan. Finally, the package allows the Social Security Administration and the Veterans' Administration to work together to verify low-income status when distributing veteran's benefits.

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